



Management's Discussion and Analysis
and Combined Financial Statements
June 30, 2013 and 2012

Coal County Healthcare Authority

Coal County Healthcare Authority

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June 30, 2013 and 2012

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Independent Auditor's Report

Board of Trustees
Coal County Healthcare Authority
Coalgate, Oklahoma

Report on the Financial Statements

We have audited the accompanying combined financial statements of Coal County Healthcare Authority (Authority), which comprise the combined balance sheets as of June 30, 2013 and 2012, and the related combined statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the combined financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these combined financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of combined financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these combined financial statements based on our audits. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatements.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Authority's preparation and fair presentation of the combined financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Opinion

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Coal County Healthcare Authority as of June 30, 2013 and 2012, and the results of its operations, changes in net position, and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Change in Reporting Entity

The accompanying 2012 financial statements were originally prepared and reported on as the consolidated financial statements of the Coal County General Hospital Holding Company and Subsidiaries, which comprised the consolidated financial statements of the Holding Company, Coal County General Hospital, Inc. and Coal County Extended Care, Inc. As discussed in Note 10 to combined the financial statements on April 1, 2013, the Coal County Healthcare Authority was created for the purpose of operating the hospital and nursing home facility previously managed by Coal County General Hospital Holding Company. Despite the changes in organizational structure, the accompanying combined financial statements as of and for the years ended June 30, 2013 and 2012, represent the financial position, results of operations, changes in net position, and cash flows resulting from the same operating entities and activities. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 21, 2014 on our consideration of the Authority's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control over financial reporting and compliance.



Oklahoma City, Oklahoma
February 21, 2014

Introduction

Our discussion and analysis for Coal County Healthcare Authority (Authority) provides an overview of the Authority's combined financial activities for the fiscal years ended June 30, 2013 and 2012. Please read it in conjunction with the Authority's combined financial statements, which begin on page 7.

Financial Highlights

- The Authority's net position decreased by \$99,307 or 5% in 2013 and \$575,411, or 22% in 2012.
- The Authority reported an operating loss in 2013 of \$178,852 and \$600,996 in 2012. During 2013, operating loss decreased by \$422,144 or 70% compared to 2012 and increased by \$661,182 or 1,099% in 2012 compared to 2011.
- Net nonoperating income increased by \$53,960 or 211% in 2013 compared to 2012 and decreased \$36,691 or 330% in 2012 compared to 2011.

Using This Annual Report

The Authority's combined financial statements consist of three statements - a Balance Sheet; a Statement of Revenues, Expenses, and Changes in Net Position; and a Statement of Cash Flows. These combined financial statements and related notes provide information about the activities of the Authority including resources held by the Authority but restricted for specific purposes by contributors, grantors, or enabling legislation. The Authority is accounted for as a business-type activity and presents its combined financial statements using the economic resources measurement focus and the accrual basis of accounting.

The Balance Sheet and Statement of Revenues, Expenses, and Changes in Net Position

One of the most important questions asked about the Authority's finances is, "Is the Authority as a whole better or worse off as a result of the year's activities?" The Balance Sheet and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Authority's resources and its activities in a way that helps answer this question. These statements include all restricted and unrestricted assets and all liabilities using the accrual basis of accounting. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the Authority's net position and changes in them. You can think of the Authority's net position - the difference between assets and liabilities - as one way to measure the Authority's financial health, or financial position. Over time, increases or decreases in the Authority's net position are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the Authority's patient base and measures of the quality of service it provides to the community, as well as local economic factors to assess the overall health of the Authority.

The Statement of Cash Flows

The final required statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments, and net changes in cash resulting from operations, investing, and financing activities. It provides answers to such questions as "Where did cash come from?" "What was cash used for?" and "What was the change in cash balance during the reporting period?"

The Authority's Net Position

The Authority's net position is the difference between its assets and liabilities reported in the Balance Sheet. The Authority's net position decreased by \$99,307 or 5% in 2013 and \$575,411, or 22% in 2012 as shown in Table 1.

Table 1: Assets, Liabilities, and Net Position

Assets, Liabilities and Net Position

The Authority's assets decreased by \$79,499 or 2% in 2013 and \$419,429 or 11% in 2012. The Authority's liabilities increased by \$19,808 or 2% in 2013 and \$155,982 or 14% in 2012.

Table 1: Assets, Liabilities and Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Assets			
Current assets	\$ 1,936,895	\$ 1,959,979	\$ 2,236,473
Capital assets, net	1,132,910	1,189,325	1,359,226
Other noncurrent assets	<u>90,513</u>	<u>90,513</u>	<u>63,547</u>
Total assets	<u>\$ 3,160,318</u>	<u>\$ 3,239,817</u>	<u>\$ 3,659,246</u>
Liabilities			
Current liabilities	\$ 1,056,061	\$ 1,058,115	\$ 801,423
Long-term debt, less current maturities	<u>205,051</u>	<u>183,189</u>	<u>283,899</u>
Total liabilities	<u>1,261,112</u>	<u>1,241,304</u>	<u>1,085,322</u>
Net Position			
Net investment in capital assets	801,626	905,426	967,922
Unrestricted	<u>1,097,580</u>	<u>1,093,087</u>	<u>1,606,002</u>
Total net position	<u>1,899,206</u>	<u>1,998,513</u>	<u>2,573,924</u>
Total liabilities and net position	<u>\$ 3,160,318</u>	<u>\$ 3,239,817</u>	<u>\$ 3,659,246</u>

Table 2: Operating Results and Changes in Net Position

	<u>2013</u>	<u>2012</u>	<u>2011</u>
Operating Revenues			
Net patient and resident service revenue	\$ 8,111,407	\$ 7,301,091	\$ 8,093,401
Electronic health records incentive	-	290,674	-
Other revenues	<u>264,323</u>	<u>427,477</u>	<u>129,715</u>
Total operating revenues	<u>8,375,730</u>	<u>7,728,568</u>	<u>8,223,116</u>
Operating Expenses			
Nursing services	4,060,877	3,802,298	4,004,713
Other professional services	1,277,373	1,291,933	1,065,470
General services	835,029	811,846	847,596
Administrative services	2,099,601	2,150,345	2,002,707
Depreciation	<u>281,702</u>	<u>273,142</u>	<u>242,444</u>
Total operating expenses	<u>8,554,582</u>	<u>8,329,564</u>	<u>8,162,930</u>
Operating Income (Loss)	<u>(178,852)</u>	<u>(600,996)</u>	<u>60,186</u>
Nonoperating Revenues (Expenses)			
Sales tax	96,296	-	-
Investment income	418	365	1,057
Interest expense	(17,169)	(23,833)	(12,413)
Other gains and losses	<u>-</u>	<u>49,053</u>	<u>250</u>
Total nonoperating revenues (expenses), net	<u>79,545</u>	<u>25,585</u>	<u>(11,106)</u>
Expenses in Excess of Revenues	(99,307)	(575,411)	49,080
Capital Contributions	<u>-</u>	<u>-</u>	<u>30,000</u>
Changes in Net Position	(99,307)	(575,411)	79,080
Net Position, Beginning of Year	<u>1,998,513</u>	<u>2,573,924</u>	<u>2,494,844</u>
Net Position, End of Year	<u>\$ 1,899,206</u>	<u>\$ 1,998,513</u>	<u>\$ 2,573,924</u>

Operating Results

The first component of the overall change in the Authority's net position is its operating income - generally, the difference between net patient service revenues and the expenses incurred to perform those services.

The operating loss for 2013 decreased by \$422,144 or 70% as compared to 2012 and increased in 2012 by \$661,182 or 1,099% compared to 2011. The primary components of the decreased operating income are:

- An increase in patient revenue, net of uncollectible accounts, of \$810,316 or 11% as compared to a decrease in 2012 of \$792,310 or 10% as compared to 2011.
- A decrease in other revenue of \$163,154, or 38% as compared to an increase in 2012 of \$297,762 or 230% as compared to 2011.
- In 2012, the Authority met the requirements as a meaningful user of electronic health records and received approximately \$291,000 from government incentives. The Authority received no government incentives in 2013.

Nonoperating Revenues and Expenses

Nonoperating revenues consist primarily of sales tax revenue, interest expense and investment income. The Authority first received sales tax revenues in 2013 of \$96,296. The interest expense decreased in 2013 by \$6,664 or 28% and increased \$11,420 or 92% in 2012.

The Authority's Cash Flows

Changes in the Authority's cash flows are consistent with changes in operating income and nonoperating revenues and expenses, discussed earlier.

Capital Asset and Debt Administration

At the end of 2013 and 2012, the Authority had \$1,132,910 and \$1,189,325 invested in capital assets, net of accumulated depreciation, as detailed in Note 4 to the combined financial statements. The Authority purchased new capital assets costing \$235,636 and \$54,188 during 2013 and 2012.

Debt

At June 30, 2013 and 2012, the Authority had \$331,284 and \$283,899 in capital lease obligations outstanding as detailed in Note 6. At June 30, 2013 and 2012, the Authority had \$250,000 and \$0 in notes payable outstanding as detailed in Note 6.

Contacting the Authority's Financial Management

This financial report is designed to provide our patients, suppliers and creditors with a general overview of the Authority's finances and to show the Authority's accountability for the money it receives. Questions about this report and requests for additional financial information should be directed to the Authority administration by calling 580-927-2327.

Coal County Healthcare Authority
 Combined Balance Sheets
 June 30, 2013 and 2012

	2013	2012
Assets		
Current Assets		
Cash and cash equivalents	\$ 305,207	\$ 651,523
Accounts receivables		
Patient and resident, net of estimated uncollectibles of approximately \$744,000 in 2013 and \$838,000 in 2012	1,427,028	1,191,154
Sales tax	96,296	-
Other	1,132	1,068
Supplies	104,172	94,694
Prepays	3,060	21,540
Total current assets	1,936,895	1,959,979
Capital Assets, Net	1,132,910	1,189,325
Other Assets	90,513	90,513
Total assets	\$ 3,160,318	\$ 3,239,817
 Liabilities and Net Position		
Current Liabilities		
Current portion of long-term debt	\$ 126,233	\$ 100,710
Notes payable	250,000	-
Accounts payable	169,741	261,046
Accrued liabilities	195,739	183,721
Estimated third-party payor settlements	308,819	506,163
Deposits from patients	5,529	6,475
Total current liabilities	1,056,061	1,058,115
Long-Term Debt, Net	205,051	183,189
Total liabilities	1,261,112	1,241,304
Net Position		
Net investment in capital assets	801,626	905,426
Unrestricted	1,097,580	1,093,087
Total net position	1,899,206	1,998,513
Total liabilities and net position	\$ 3,160,318	\$ 3,239,817

Coal County Healthcare Authority
 Combined Statements of Operations and Changes in Net Position
 Years Ended June 30, 2013 and 2012

	2013	2012
Operating Revenues		
Net patient and resident service revenue	\$ 8,111,407	\$ 7,301,091
Electronic health records incentive	-	290,674
Other revenues	264,323	136,803
Total operating revenues	8,375,730	7,728,568
Operating Expenses		
Nursing services	4,060,877	3,802,298
Other professional services	1,277,373	1,291,933
General services	835,029	811,846
Administrative services	2,099,601	2,150,345
Depreciation	281,702	273,142
Total operating expenses	8,554,582	8,329,564
Operating Loss	(178,852)	(600,996)
Nonoperating Revenues (Expenses)		
Sales tax	96,296	-
Investment income	418	365
Interest expense	(17,169)	(23,833)
Gain on disposal of equipment	-	49,053
Total nonoperating revenues, net	79,545	25,585
Decrease in Net Position	(99,307)	(575,411)
Net Position, Beginning of Year	1,998,513	2,573,924
Net Position, End of Year	\$ 1,899,206	\$ 1,998,513

Coal County Healthcare Authority
 Combined Statements of Cash Flows
 Years Ended June 30, 2013 and 2012

	2013	2012
Operating Activities		
Receipts from and on behalf of patients and residents	\$ 7,677,243	\$ 8,143,292
Other receipts and payments, net	264,259	426,744
Payments to suppliers and contractors	(3,383,044)	(3,066,673)
Payments to employees	(4,960,121)	(5,021,213)
Net Cash Used for Operating Activities	(401,663)	482,150
Noncapital Financing Activities		
Proceeds from short-term obligation	250,000	48,000
Repayment of short-term obligation	-	(220,277)
Interest paid on short term obligations	(5,639)	(10,842)
Net Cash Used for Noncapital Financing Activities	244,361	(183,119)
Capital and Capital Related Financing Activities		
Purchase of property and equipment	(63,398)	(54,188)
Principal payments on capital lease obligations	(117,853)	(107,405)
Proceeds from the sale of capital assets	3,349	-
Interest paid on debt obligations	(11,530)	(12,991)
Net Cash Used for Capital and Capital Related Financing Activities	(189,432)	(174,584)
Investing Activities		
Investment income	418	365
Increase (Decrease) in Cash and Cash Equivalents	(346,316)	124,812
Cash and Cash Equivalents, Beginning	651,523	526,711
Cash and Cash Equivalents, Ending	\$ 305,207	\$ 651,523

Coal County Healthcare Authority
 Combined Statements of Cash Flows
 Years Ended June 30, 2013 and 2012

	2013	2012
Reconciliation of Operating Loss to Net Cash		
Used for Operating Activities	\$ (178,852)	\$ (600,996)
Adjustments to reconcile change in net position to net cash used for operating activities		
Provision for bad debt	383,100	774,225
Depreciation	281,702	273,142
Changes in assets and liabilities		
Patient receivables	(618,974)	(366,023)
Other receivables	(64)	(733)
Supplies	(9,478)	(596)
Prepays	18,480	(32,533)
Accounts payable	(91,305)	121,397
Accrued liabilities	12,018	(119,732)
Deposits from patients	(946)	2,836
Estimated third-party settlements	(197,344)	431,163
Net Cash Used for Operating Activities	(401,663)	482,150
Supplemental Disclosure of Non-cash Investing and Financing Activity		
Equipment financed through capital lease arrangements	\$ 165,238	\$ -

Note 1 - Organization and Significant Accounting Policies

Organization

Coal County Healthcare Authority (Authority) is a public trust created on April 1, 2013, under the provisions of Title 60, Oklahoma Statutes, the Oklahoma Trust Act, and other applicable laws and statutes of the State of Oklahoma. The Authority's sole activity is the operation a 20 bed critical access hospital and a 75 bed nursing home facility to provide quality medical, surgical, hospital, and nursing care services for the residents of Coal County.

Blended Component Units

Coal County General Hospital Holding Company (Holding Company), Coal County General Hospital, Inc. (Hospital) and Coal County Extended Care, Inc. (Nursing Home) have been included as blended component units because the Authority is financially accountable for the Holding Company, Hospital and Nursing Home. Since the Hospital, Nursing Home and Holding Company perform health care related functions exclusively for the Authority. The blending method has been used to incorporate their financial statements into the Authority's financial statements under the blending method, transactions between the companies and the Authority that generate intercompany receivables, payables, revenues and expenses are eliminated. After eliminations, the remaining balances and transactions of the Hospital, Nursing Home and Holding Company are included in the Authority's assets, liabilities, revenues and expenses. See Note 10 for change in reporting entity.

Enterprise Fund Accounting

The Authority uses enterprise fund accounting. Revenues and expenses are recognized on the accrual basis using the economic resources measurement focus.

Basis of Accounting and Presentation

Revenues, expenses, gains, losses, assets, and liabilities from exchange and exchange-like transactions are recognized when the exchange transaction takes place, while those government-mandated non-exchange transactions (principally federal and state grants and county appropriations) are recognized when all applicable eligibility requirements are met. Operating revenues and expenses include exchange transactions and program specific, government-mandated non-exchange transactions. Government-mandated non-exchange transactions that are not program specific, property taxes, investment income and interest on capital assets-related debt are included in non-operating revenues and expenses. The Authority first applies restricted net position when an expense or outlay is incurred for purposes for which both restricted and unrestricted net positions are available.

The Authority adopted the provisions of *GASB Statement No. 61, The Financial Reporting Entity: Omnibus an amendment of GASB Statements No.14 and No.34*; *GASB Statement No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*; and *GASB Statement No. 63, Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position* in 2013.

Income Taxes

The Authority is exempt from income taxes under Section 115 of the Internal Revenue Code as a political subdivision of the State of Oklahoma.

Use of Estimates

The preparation of combined financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the combined financial statements. Estimates also affect the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include highly liquid investments with an original maturity of three months or less.

Patient Receivables

Patient receivables are uncollateralized customer and third-party payor obligations. Patient receivables, excluding amounts due from third-party payors, are turned over to a collection agency if the receivables remain unpaid after the Authority's collections procedures. The Authority does not charge interest on the unpaid patient receivables. Payments of patient receivables are allocated to the specific claims identified on the remittance advice or, if unspecified, are applied to the earliest unpaid claim.

The carrying amount of patient receivables is reduced by a valuation allowance that reflects management's best estimate of amounts that will not be collected from patients and third-party payors. Management reviews patient receivables by payor class and applies percentages to determine estimated amounts that will not be collected from third parties under contractual agreements and amounts that will not be collected from patients due to bad debts. Management considers historical write off and recovery information in determining the estimated bad debt provision.

Supplies

Supplies are valued at lower of cost (first-in, first-out) or market.

Capital Assets

Capital asset acquisitions in excess of \$5,000 are capitalized and recorded at cost. Depreciation is provided over the estimated useful life of each depreciable asset and is computed using the straight-line method. Equipment under capital lease obligations is amortized on the straight-line method over the shorter period of the lease term or the estimated useful life of the equipment. Amortization is included in depreciation in the combined financial statements. The estimated useful lives of capital assets are as follows:

Buildings and improvements	5-50 years
Equipment	3-20 years

Compensated Absences

The Authority's policies permit most employees to accumulate vacation and sick leave benefits that may be realized as paid time off or, in limited circumstances, as a cash payment. The expense and the related liability for vacation benefits are recognized as earned whether the employee is expected to realize the benefit as time off or in cash. The expense and the related liability for sick leave benefits are recognized when earned to the extent the employee is expected to realize the benefit in cash determined by using the termination payment method. Sick leave benefits expected to be realized as paid time off are recognized as expense when the time off occurs and no liability is accrued for such benefits employees have earned but not yet realized. Compensated absence liabilities are computed using the regular pay and termination pay rates in effect at the balance sheet date, plus an additional amount for compensation-related payments such as Social Security and Medicare taxes computed using rates in effect at that date.

Net Position

Net position is presented in the following components:

Net Investment in Capital Assets - Net investment in capital assets consists of capital assets, net of accumulated depreciation, and reduced by the current balances of any outstanding debt obligations used to finance the purchase or construction of those assets.

Unrestricted - Unrestricted is remaining net position that does not meet the definition of net investment in capital assets.

Net Patient and Resident Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates. Payment arrangements include prospectively determined rates, reimbursed costs, discounted charges, and per diem payments. Net patient and resident service revenue is reported at the estimated net realizable amounts from patients, third-party payors, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

Electronic Health Record Incentive Payments

The American Recovery and Reinvestment Act of 2009 (ARRA) amended the Social Security Act to establish incentive payments under the Medicare and Medicaid programs for certain hospitals and professionals that meaningfully use certified Electronic Health Records (EHR) technology. These incentive payments are available for the next three years. To qualify for EHR incentive payments, hospitals and physicians must meet EHR meaningful use criteria. In addition, hospitals must attest that they have certified EHR technology, satisfied the meaningful use objectives, and specify the EHR reporting period. The attestation is subject to audit by the federal government or its designee. The EHR incentive payment to hospitals for each payment year is calculated as a product of (1) allowable costs as defined by the Centers for Medicare & Medicaid Services (CMS) and (2) the Medicare share. Once the initial attestation of meaningful use is completed, critical access hospitals receive the entire EHR incentive payment for submitted allowable costs of the respective periods in a lump sum, subject to a final adjustment on the cost report.

The Authority recognizes EHR incentive payments as revenue when there is reasonable assurance that the Authority will comply with the conditions attached to the incentive payments. As the entire EHR incentive payment is received in a lump sum for critical access hospitals and the Authority must annually attest to increasingly stringent meaningful use criteria, the EHR incentive payment is first recognized as a deferred revenue with a ratable recognition of revenue over a specified time period. EHR incentive payments are included in other operating revenue in the accompanying financial statements. The amount of EHR incentive payments recognized are based on management's best estimate and those amounts are subject to change with such changes impacting the period in which they occur. Management has estimated the expected revenue to be recognized during the next fiscal year and recorded this portion as a current liability

During the year ended June 30, 2013, the Authority did not receive meaningful use incentives. During the year ended June 30, 2012, the Authority recorded \$290,674 related to the Medicare program in other operating revenue for meaningful use incentives.

Supplemental Hospital Offset Payment Program Act

The Supplemental Hospital Offset Payment Program Act (SHOPP), designated as House Bill 1381 (HB 1381), was passed during 2011 implementing a fee on hospitals to generate matching funds to the state of Oklahoma from federal sources. The program is designed to assess Oklahoma hospitals, unless exempt, a supplemental hospital offset payment program fee. The collected fees will be placed in pools and then allocated to hospitals as directed by legislation. The Oklahoma Health Care Authority (OHCA) does not guarantee that allocations will be equal or exceed the amount of the supplemental hospital offset payment program fee paid by the hospital.

The Authority records receipts to contractual adjustments. The Authority received \$79,970 and \$77,726 during the years ended June 30, 2013 and 2012.

Future changes in law or regulation at the federal or state level can adversely affect or eliminate SHOPP

Charity Care

The Authority provides care to patients who meet certain criteria under its charity care policy without charge or at amounts less than established rates. Since the Authority does not pursue collection of amounts determined to qualify as charity care, they are not reported as revenue. The amount of charges foregone for services provided under the Authority's charity care policy were \$70,077 and \$72,302 for the years ended June 30, 2013 and 2012. Total direct and indirect costs related to these foregone charges were approximately \$46,000 and \$50,000 at June 30, 2013 and 2012, based on an average ratio of cost to gross charges.

Advertising Costs

Costs incurred for producing and distributing advertising are expensed as incurred. The Authority incurred \$2,993 and \$8,880 for advertising cost for the years ended June 30, 2013 and 2012.

Grants and Contributions

From time to time, the Authority receives grants as well as contributions from individuals and private organizations. Revenues from grants and contributions (including contributions of capital assets) are recognized when all eligibility requirements, including time requirements are met. Grants and contributions may be restricted for either specific operating purposes or for capital purposes. Amounts that are unrestricted or that are restricted to a specific operating purpose are reported as non-operating revenues. Amounts restricted to capital acquisitions are reported after non-operating revenues and expenses.

Risk Management

The Authority is exposed to various risks of loss from torts; theft of, damage to, and destruction of assets; business interruption; errors and omissions; employee injuries and illnesses; natural disasters; and employee health, dental, and accident benefits. Commercial insurance coverage is purchased for claims arising from such matters other than employee health claims. Settled claims have not exceeded this commercial coverage in any of the three preceding years.

Reclassifications

Reclassifications have been made to the June 30, 2012 financial information to make it conform to the current year presentation. The reclassification had no effect on previously reported operating results or changes in net Position.

Note 2 - Net Patient and Resident Service Revenue

The Authority has agreements with third-party payors that provide for payments to the Authority at amounts different from its established rates.

A summary of the payment arrangements with major third-party payors follows:

Coal County General Hospital, Inc.

Medicare: The Hospital is licensed as a Critical Access Hospital (CAH). The Hospital is reimbursed for most acute care services under cost reimbursement policy with final settlement determined after submission of annual cost reports by the Hospital and are subject to audits thereof by the Medicare intermediary. The Hospital's Medicare cost reports have been audited by the Medicare fiscal intermediary through the year ended June 30, 2011.

Medicaid: Inpatient and outpatient services rendered to Medicaid program beneficiaries are reimbursed at a prospectively determined rate per discharge or established fee schedules.

Other carriers: The Authority has also entered into payment agreements with certain commercial insurance carriers, health maintenance organizations and preferred provider organizations. The basis for payment to the Authority under these agreements includes prospectively determined rates per discharge, discounts from established charges and prospectively determined daily rates.

Coal County Extended Care, Inc.

Medicare: Inpatient skilled care, hospice and home health services rendered to Medicare program beneficiaries are paid at prospectively determined rates.

Medicaid: Medicaid services are paid at prospectively determined rates.

Other carriers: The Nursing Home has also entered into payment agreements with certain commercial insurance carriers. The basis for payment to the Nursing Home under these agreements includes prospectively determined rates and discounts from established charges.

Revenue from the Medicare and Medicaid programs accounted for approximately 49% and 22% of the Authority's net patient and resident service revenue for the year ended June 30, 2013 and 45% and 26% for the year ended June 30, 2012. Laws and regulations governing the Medicare, Medicaid, and other programs are extremely complex and subject to interpretation. As a result, there is at least a reasonable possibility that recorded estimates will change by a material amount in the near term. The net patient service revenue for the years ended June 30, 2013 and 2012 increased approximately \$59,000 and \$86,000 due to removal of allowances previously estimated that are no longer necessary as a result of final settlements and years that are no longer likely subject to audits, reviews, and investigations.

A summary of patient and resident service revenue and contractual adjustments for the years ended June 30, 2013 and 2012 is as follows:

	2013	2012
Total patient and resident service revenue	\$ 13,059,872	\$ 12,438,363
Contractual adjustments and provisions for bad debt		
Medicare	(3,385,873)	(3,075,230)
Medicaid	(620,481)	(737,054)
Other	(559,011)	(550,763)
Less provision for bad debts	(383,100)	(774,225)
Total contractual adjustments and provisions for bad debts	(4,948,465)	(5,137,272)
Net patient and resident service revenue	8,111,407	7,301,091

Note 3 - Deposits

State statutes require public trusts to invest monies in financial institutions only in collateralized or insured certificates of deposit and other evidences of deposit. It is the Authority's practice to mainly invest in demand and time deposit accounts and certificates of deposit. The following is a summary of deposits and investments at June 30, 2013 and 2012:

	2013	2012
Total Bank Balance		
Insured (FDIC)	\$ 259,593	\$ 250,000
Collateralized with securities held by the Authority's agent in the Authority's name	140,012	473,400
	\$ 399,605	\$ 723,400
 Total Carrying Value		
Cash and cash equivalents	\$ 305,207	\$ 651,523

Custodial Credit Risk – Exposure to custodial credit related to deposits exists when the Authority holds deposits that are uninsured and uncollateralized; collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Authority's name; or collateralized without a written or approved collateral agreement. Exposure to custodial credit risk related to investments exists when the Authority holds investments that are uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the Authority's name.

The Authority secures cash deposits in excess of \$250,000 with U.S. Government or Federal Agency securities. State law requires all deposits of public funds to be collateralized. At June 30, 2013 and 2012, no amounts were uncollateralized

Note 4 - Capital Assets

Activity for the year ended June 30, 2013, is as follows:

	Balance June 30, 2012	Additions	Retirements	Transfers	Balance June 30, 2013
Non-depreciable capital assets					
Land	\$ 124,063	\$ -	\$ -	\$ -	\$ 124,063
Construction in progress	7,000	-	-	(7,000)	-
Total non-depreciable capital assets	<u>\$ 131,063</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (7,000)</u>	<u>\$ 124,063</u>
Depreciable capital assets					
Building and building improvements	\$ 2,665,081	\$ -	\$ -	\$ -	\$ 2,665,081
Equipment	2,641,762	63,398	(91,581)	7,000	2,620,579
Equipment under capital obligations	546,980	165,238	-	-	712,218
Total depreciable capital assets	<u>5,853,823</u>	<u>\$ 228,636</u>	<u>\$ (91,581)</u>	<u>\$ 7,000</u>	<u>5,997,878</u>
Less accumulated depreciation					
Building and building improvements	2,408,602	\$ 33,466	\$ -	\$ -	\$ 2,442,068
Equipment	2,158,780	126,704	(88,233)	-	2,197,251
Equipment under capital obligations	228,179	121,533	-	-	349,712
Total accumulated depreciation	<u>4,795,561</u>	<u>\$ 281,703</u>	<u>\$ (88,233)</u>	<u>\$ -</u>	<u>4,989,031</u>
Depreciable capital assets, net	<u>\$ 1,058,262</u>				<u>\$ 1,008,847</u>
Capital assets, net	<u>\$ 1,189,325</u>				<u>\$ 1,132,910</u>

Coal County Healthcare Authority
Notes to Combined Financial Statements
June 30, 2013 and 2012

Activity for the year ended June 30, 2012, is as follows:

	Balance June 30, 2011	Additions	Retirements	Transfers	Balance June 30, 2012
Non-depreciable capital assets					
Land	\$ 124,063	\$ -	\$ -	\$ -	\$ 124,063
Construction in progress	-	7,000	-	-	7,000
Total non-depreciable capital assets	\$ 124,063	\$ 7,000	\$ -	\$ -	\$ 131,063
Depreciable capital assets					
Building and building improvements	\$ 2,665,081	\$ -	\$ -	\$ -	\$ 2,665,081
Equipment	2,594,574	47,188	-	-	2,641,762
Equipment under capital obligations	546,980	-	-	-	546,980
Total depreciable capital assets	5,806,635	\$ 47,188	\$ -	\$ -	5,853,823
Less accumulated depreciation					
Building and building improvements	2,374,350	\$ 34,252	\$ -	\$ -	\$ 2,408,602
Equipment	2,073,933	84,847	-	-	2,158,780
Equipment under capital obligations	123,189	104,990	-	-	228,179
Total accumulated depreciation	4,571,472	\$ 224,089	\$ -	\$ -	4,795,561
Depreciable capital assets, net	\$ 1,235,163				\$ 1,058,262
Capital assets, net	\$ 1,359,226				\$ 1,189,325

Note 5 - Leases

The Authority leases certain equipment under noncancelable long-term lease agreements. Certain leases have been recorded as capitalized leases and others as operating leases. Total lease expense under operating leases was approximately \$175,000 and \$189,000 for the years ended June 30, 2013 and 2012, respectively. The capitalized leased assets consist of:

	2013	2012
Major Movable Equipment	\$ 712,218	\$ 546,980
Less Accumulated Amortization	(349,712)	(228,179)
	\$ 362,506	\$ 318,801

Minimum future lease payments for operating leases agreements are as follows:

<u>Year Ending June 30,</u>	<u>Operating Leases</u>
2014	\$ 56,555
2015	34,484
 Total minimum lease payments	 \$ 91,039

Note 6 - Notes Payable and Long-Term Debt

Notes payable consist of:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Line of credit (1)	\$ -	\$ 250,000	\$ -	\$ 250,000	\$ 250,000
	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Line of credit (1)	\$ 172,277	\$ 48,000	\$ (220,277)	\$ -	\$ -

(1) Line of credit up to \$250,000, 5% interest rate, due December 20, 2013, collateralized by inventory and accounts receivable.

The Hospital has a second line of credit up to \$400,220 with a bank dated December 12, 2012 and maturing December 12, 2013 at 5.25%, collateralized by inventory and accounts receivable no amounts were outstanding at June 30, 2013.

Long-term debt consists of:

	Balance June 30, 2012	Additions	Reductions	Balance June 30, 2013	Amounts Due Within One Year
Capital lease obligations (1)	\$ 283,899	\$ 165,238	\$ (117,853)	\$ 331,284	\$ 126,233
	Balance June 30, 2011	Additions	Reductions	Balance June 30, 2012	Amounts Due Within One Year
Capital lease obligations (1)	\$ 391,304	\$ -	\$ (107,405)	\$ 283,899	\$ 100,710

(1) Capital leases with varying interest rates from 3.65% to 5.51%, collateralized by associated equipment, with varying maturity dates from May 1, 2015 through May 9, 2018.

Long-term debt maturities are as follows:

<u>Year Ending June 30,</u>	<u>Long-Term Debt</u>		<u>Total</u>
	<u>Principal</u>	<u>Interest</u>	
2014	\$ 126,233	\$ 9,732	\$ 135,965
2015	124,060	5,473	129,533
2016	34,044	2,537	36,581
2017	32,343	1,313	33,656
2018	13,604	225	13,829
Total	<u>\$ 330,284</u>	<u>\$ 19,280</u>	<u>\$ 349,564</u>

Note 7 - Concentration of Credit Risk

The Authority grants credit without collateral to its patients and residents, most of who are insured under third-party payor agreements. The mix of receivables for third party payors, patients and residents at June 30, 2013 and 2012, was as follows:

	<u>2013</u>	<u>2012</u>
Medicare	56%	47%
Medicaid	8%	10%
Other third-party payors	8%	9%
Patients	28%	34%
	<u>100%</u>	<u>100%</u>

Note 8 - Related Party Transactions

Due to the size of Coal County, the Board consists of community leaders who from time to time are involved in transactions with the Authority. It is management's intention and belief that all transactions are arm's length transactions.

Note 9 - Contingencies

Malpractice Insurance

The Authority has malpractice insurance coverage to provide protection for professional liability losses on a claims-made basis subject to a limit of \$1,000,000 per claim and an annual aggregate limit of \$3,000,000. Should the claims-made policy not be renewed or replaced with equivalent insurance, claims based on occurrences during its term, but reported subsequently, would be uninsured.

The Authority accrues the expense, in any of its shares of malpractice claims costs for any reported and unreported incidents of potential improper professional service occurring during the year by estimating the probable ultimate cost of any incident. Such estimates are based on the Authority's own claim experience. No accrual for medical malpractice claims has been included in the accompanying combined financial statements.

Litigations, Claims, and Disputes

The Authority is subject to the usual contingencies in the normal course of operations relating to the performance of its tasks under its various programs. In the opinion of management, the ultimate settlement of any litigation, claims, and disputes in process will not be material to the financial position, operations, or cash flows of the Authority.

The health care industry is subject to numerous laws and regulations of federal, state, and local governments. Compliance with these laws and regulations, specifically those relating to the Medicare and Medicaid programs, can be subject to government review and interpretation, as well as regulatory actions unknown and unasserted at this time. Federal government activity has increased with respect to investigations and allegations concerning possible violations by health care providers of regulations, which could result in the imposition of significant fines and penalties, as well as significant repayments of previously billed and collected revenues from patient services.

Note 10 - Change in Reporting Entity

On April 1, 2013, the Coal County Healthcare Authority (Authority) was created for the purposes of operating the Hospital and Nursing Home previously operated by Coal County General Hospital Holding Company (Holding Company). To affect the Authority's ability to operate these activities, on March 25, 2013, ownership of the land and buildings of the Hospital and Nursing Home were transferred to the Coal County Board of Commissioners (Board of Commissioners) via a quit claim deed and one dollar of consideration. Upon the creation of the Authority on April 1, 2013, the Board of Commissioners entered into an agreement to lease the land, buildings and operations to the Authority for a term of 99 years; after which the Authority leased the same land, buildings and operations to the Hospital for the same term. The Board of Commissioners also appoints the trustees of the Authority, who serve for a period of seven years. The initial appointment of trustees was comprised of the current Board of Directors of the Hospital, the effect of which was that there was no change in those responsible for the governance and management of the reporting entity. The effect of these agreements is to transfer current and future control of the operations from the Holding Company to the Board of Commissioners.

Note 11 - Subsequent Events

The Authority has evaluated subsequent events through February 21, 2014, the date which the combined financial statements were available to be issued.

On February 4, 2014 the Authority signed an agreement to purchase server hardware for \$490,000. The agreement includes a monthly maintenance and service fee of \$9,995 for 72 months.

On December 31, 2013 the Authority sold the assets of their Hospice program for \$150,000. In addition the Authority sold the assets of their Home Health program for a 10% ownership in New Horizons Home Health, LLC and \$300,000.



Supplementary Information
June 30, 2013 and 2012

Coal County Healthcare Authority



Independent Auditor's Report on Supplementary Information

Board of Trustees
Coal County Healthcare Authority
Coalgate, Oklahoma

We have audited the combined financial statements of Coal County Healthcare Authority (Authority) as of and for the years then ended June 30, 2013 and 2012 and our report thereon dated February 21, 2014, which expressed an unqualified opinion on those combined financial statements, appears on pages 1 and 2. Our audits were performed for the purpose of forming an opinion on the combined financial statements as a whole. The combining schedules of balance sheet information and combining schedules of operations and changes in net position information, and schedules of net patient and resident service revenue, other revenue, and expenses are presented for the purposes of additional analysis and are not a required part of the combined financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. The information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the combined financial statements as a whole.

Eide Bailly LLP

Oklahoma City, Oklahoma
February 21, 2014

Coal County Healthcare Authority
Schedules of Net Patient and Resident Service Revenue
Years Ended June 30, 2013 and 2012

	2013	2012
Daily Patient Services		
Medical and surgical	\$ 4,555,253	\$ 4,396,516
Swing bed	426,900	261,600
	4,982,153	4,658,116
Other Nursing Services		
Central service supplies	301,914	188,819
Emergency services	672,200	685,742
Home health	752,502	723,361
Hospice	69,978	49,230
	1,796,594	1,647,152
Other Professional Services		
Ultrasound	457,680	455,010
Respiratory Therapy	7,254	130,102
Speech Therapy	1,288	103,417
Laboratory	1,975,962	1,733,146
Pharmacy	1,231,581	1,220,402
Physical therapy	562,572	391,655
Radiology	2,114,465	2,171,665
	6,350,802	6,205,397
Charity Care	(69,677)	(72,302)
Total patient and resident service revenue	13,059,872	12,438,363
Reductions from Revenue		
Contractual adjustments		
Medicare	3,385,873	3,075,230
Medicaid	620,481	737,054
Other	559,011	550,763
Bad debt expense	383,100	774,225
Total reductions from revenue	4,948,465	5,137,272
Net Patient and Resident Service Revenue	\$ 8,111,407	\$ 7,301,091

Coal County Healthcare Authority
Schedules of Other Operating Revenue
Years Ended June 30, 2013 and 2012

	<u>2013</u>	<u>2012</u>
Other Revenue		
Focus on Excellence	\$ 154,738	\$ 65,649
Miscellaneous	<u>109,585</u>	<u>71,154</u>
Total Other Revenue	<u>\$ 264,323</u>	<u>\$ 136,803</u>

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	2013		
	Salaries	Other	Total
Nursing Services			
Medical and surgical	\$ 2,374,883	\$ 1,173,935	\$ 3,548,818
Emergency services	40,998	471,061	512,059
	<u>\$ 2,415,881</u>	<u>\$ 1,644,996</u>	<u>\$ 4,060,877</u>
Other Professional Services			
Ultrasound	\$ 23,381	\$ 21,971	\$ 45,352
Laboratory	273,022	312,149	585,171
Pharmacy	95,807	153,528	249,335
Physical therapy	70,700	123,886	194,586
Radiology	120,972	42,428	163,400
Respiratory Therapy	20,188	18,719	38,907
Speech Therapy	622	-	622
	<u>\$ 604,692</u>	<u>\$ 672,681</u>	<u>\$ 1,277,373</u>
General Services			
Dietary	\$ 186,522	\$ 178,100	\$ 364,622
Housekeeping	169,480	67,455	236,935
Medical records	85,690	20,891	106,581
Plant operations	115,624	11,267	126,891
	<u>\$ 557,316</u>	<u>\$ 277,713</u>	<u>\$ 835,029</u>
Administrative Services			
Administrative and office	\$ 543,034	\$ 705,351	\$ 1,248,385
Employee benefits	851,216	-	851,216
	<u>\$ 1,394,250</u>	<u>\$ 705,351</u>	<u>\$ 2,099,601</u>
Depreciation	<u>\$ -</u>	<u>\$ 281,702</u>	<u>\$ 281,702</u>

Coal County Healthcare Authority
Schedules of Operating Expenses
Years Ended June 30, 2013 and 2012

2012		
Salaries	Other	Total
\$ 2,306,173	\$ 963,968	\$ 3,270,141
33,232	498,925	532,157
\$ 2,339,405	\$ 1,462,893	\$ 3,802,298
\$ 27,116	\$ 17,589	\$ 44,705
251,211	329,598	580,809
91,738	209,155	300,893
127,460	45,148	172,608
122,615	40,424	163,039
10,762	15,071	25,833
4,046	-	4,046
\$ 634,948	\$ 656,985	\$ 1,291,933
\$ 173,000	\$ 168,301	\$ 341,301
169,325	64,773	234,098
89,479	19,257	108,736
118,780	8,931	127,711
\$ 550,584	\$ 261,262	\$ 811,846
\$ 549,959	\$ 773,801	\$ 1,323,760
826,585	-	826,585
\$ 1,376,544	\$ 773,801	\$ 2,150,345
\$ -	\$ 273,142	\$ 273,142

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Coal County Healthcare Authority
Combining Schedule – Balance Sheet Information
June 30, 2013

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Total of Companies	Eliminations	Combined Total
Assets						
Current Assets						
Cash and cash equivalents	\$ 292,933	\$ 12,274	\$ -	\$ 305,207	\$ -	\$ 305,207
Accounts receivables						
Patient and resident, net of estimated uncollectibles	988,106	438,922	-	1,427,028	-	1,427,028
Sales tax	96,296	-	-	96,296	-	96,296
Other	1,132	-	-	1,132	-	1,132
Supplies	99,854	4,318	-	104,172	-	104,172
Prepays	3,060	-	-	3,060	-	3,060
Due from related party	768,037	-	-	768,037	(768,037)	-
	<u>2,249,418</u>	<u>455,514</u>	<u>-</u>	<u>2,704,932</u>	<u>(768,037)</u>	<u>1,936,895</u>
Total current assets	2,249,418	455,514	-	2,704,932	(768,037)	1,936,895
Capital Assets, Net	675,978	109,857	347,075	1,132,910	-	1,132,910
Other Assets	90,513	-	-	90,513	-	90,513
	<u>90,513</u>	<u>-</u>	<u>-</u>	<u>90,513</u>	<u>-</u>	<u>90,513</u>
Total assets	<u>\$ 3,015,909</u>	<u>\$ 565,371</u>	<u>\$ 347,075</u>	<u>\$ 3,928,355</u>	<u>\$ (768,037)</u>	<u>\$ 3,160,318</u>

Coal County Healthcare Authority
Combining Schedule – Balance Sheet Information
June 30, 2013

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Total of Companies	Eliminations	Combined Total
Liabilities and Net Position						
Current Liabilities						
Current portion of long-term debt	\$ 120,077	6,156	\$ -	\$ 126,233	\$ -	\$ 126,233
Notes payable	250,000	-	-	250,000	-	250,000
Accounts payable	64,545	105,196	-	169,741	-	169,741
Accrued liabilities	113,950	81,789	-	195,739	-	195,739
Estimated third-party payor settlements	308,819	-	-	308,819	-	308,819
Deposits from patients	-	5,529	-	5,529	-	5,529
Due to related party	-	768,037	-	768,037	(768,037)	-
	<u>857,391</u>	<u>966,707</u>	<u>-</u>	<u>1,824,098</u>	<u>(768,037)</u>	<u>1,056,061</u>
Total current liabilities	857,391	966,707	-	1,824,098	(768,037)	1,056,061
Long-Term Debt, Net	<u>180,459</u>	<u>24,592</u>	<u>-</u>	<u>205,051</u>	<u>-</u>	<u>205,051</u>
Total liabilities	1,037,850	991,299	-	2,029,149	(768,037)	1,261,112
Net Position						
Net investment in capital assets	375,442	79,109	347,075	801,626	-	801,626
Unrestricted	<u>1,602,617</u>	<u>(505,037)</u>	<u>-</u>	<u>1,097,580</u>	<u>-</u>	<u>1,097,580</u>
Total net position	<u>1,978,059</u>	<u>(425,928)</u>	<u>347,075</u>	<u>1,899,206</u>	<u>-</u>	<u>1,899,206</u>
Total liabilities and net position	<u>\$ 3,015,909</u>	<u>\$ 565,371</u>	<u>\$ 347,075</u>	<u>\$ 3,928,355</u>	<u>\$ (768,037)</u>	<u>\$ 3,160,318</u>

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Coal County Healthcare Authority
Combining Schedule – Balance Sheet Information
June 30, 2012

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Total of Companies	Eliminations	Combined Total
Assets						
Current Assets						
Cash and cash equivalents	\$ 643,676	\$ 7,847	\$ -	\$ 651,523	\$ -	\$ 651,523
Accounts receivables						
Patient and resident, net of estimated uncollectibles	748,026	443,128	-	1,191,154	-	1,191,154
Sales tax	-	-	-	-	-	-
Other	1,068	-	-	1,068	-	1,068
Supplies	88,778	5,916	-	94,694	-	94,694
Prepays	12,803	8,737	-	21,540	-	21,540
Due from related party	155,574	-	-	155,574	(155,574)	-
Total current assets	1,649,925	465,628	-	2,115,553	(155,574)	1,959,979
Capital Assets, Net	748,022	60,762	380,541	1,189,325	-	1,189,325
Other Assets	90,513	-	-	90,513	-	90,513
Total assets	<u>\$ 2,488,460</u>	<u>\$ 526,390</u>	<u>\$ 380,541</u>	<u>\$ 3,395,391</u>	<u>\$ (155,574)</u>	<u>\$ 3,239,817</u>

Coal County Healthcare Authority
Combining Schedule – Balance Sheet Information
June 30, 2012

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Total of Companies	Eliminations	Combined Total
Liabilities and Net Position						
Current Liabilities						
Current portion of long-term debt	\$ 100,710	\$ -	\$ -	\$ 100,710	\$ -	\$ 100,710
Notes payable	-	-	-	-	-	-
Accounts payable	64,808	196,238	-	261,046	-	261,046
Accrued liabilities	100,357	83,364	-	183,721	-	183,721
Estimated third-party payor settlements	506,163	-	-	506,163	-	506,163
Deposits from patients	-	6,475	-	6,475	-	6,475
Due to related party	-	155,574	-	155,574	(155,574)	-
Total current liabilities	772,038	441,651	-	1,213,689	(155,574)	1,058,115
Long-Term Debt, Net	183,189	-	-	183,189	-	183,189
Total liabilities	955,227	441,651	-	1,396,878	(155,574)	1,241,304
Net Position						
Net investment in capital assets	464,123	60,762	380,541	905,426	-	905,426
Unrestricted	1,069,110	23,977	-	1,093,087	-	1,093,087
Total net position	1,533,233	84,739	380,541	1,998,513	-	1,998,513

Coal County Healthcare Authority
Combining Schedule –Operations and Changes in Net Position Information
Year Ended June 30, 2013

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Total of Companies	Eliminations	Combined Total
Operating Revenues						
Net patient and resident service revenue	\$ 4,761,845	3,349,562	\$ -	\$ 8,111,407	\$ -	\$ 8,111,407
Other revenues	81,770	182,553	-	264,323	-	264,323
Total operating revenues	<u>4,843,615</u>	<u>3,532,115</u>	<u>-</u>	<u>8,375,730</u>	<u>-</u>	<u>8,375,730</u>
Operating Expenses						
Nursing services	1,686,214	2,374,663	-	4,060,877	-	4,060,877
Other professional services	1,041,153	236,220	-	1,277,373	-	1,277,373
General services	333,439	501,590	-	835,029	-	835,029
Administrative services	1,195,986	903,615	-	2,099,601	-	2,099,601
Depreciation	221,626	26,610	33,466	281,702	-	281,702
Total operating expenses	<u>4,478,418</u>	<u>4,042,698</u>	<u>33,466</u>	<u>8,554,582</u>	<u>-</u>	<u>8,554,582</u>
Operating Loss	<u>365,197</u>	<u>(510,583)</u>	<u>(33,466)</u>	<u>(178,852)</u>	<u>-</u>	<u>(178,852)</u>
Nonoperating Revenues (Expenses)						
Sales tax	96,296	-	-	96,296	-	96,296
Investment income	418	-	-	418	-	418
Interest expense	(17,085)	(84)	-	(17,169)	-	(17,169)
Total nonoperating revenues	<u>79,629</u>	<u>(84)</u>	<u>-</u>	<u>79,545</u>	<u>-</u>	<u>79,545</u>
Expenses in Excess of Revenues	444,826	(510,667)	(33,466)	(99,307)	-	(99,307)
Net Position, Beginning of Year	<u>1,533,233</u>	<u>84,739</u>	<u>380,541</u>	<u>1,998,513</u>	<u>-</u>	<u>1,998,513</u>
Net Position, End of Year	<u>\$ 1,978,059</u>	<u>\$ (425,928)</u>	<u>\$ 347,075</u>	<u>\$ 1,899,206</u>	<u>\$ -</u>	<u>\$ 1,899,206</u>

Coal County Healthcare Authority
Combining Schedule –Operations and Changes in Net Position Information
Year Ended June 30, 2012

	Coal County General Hospital	Coal County Extended Care	Coal County Holding Company	Total of Companies	Eliminations	Combined Total
Operating Revenues						
Net patient and residents service revenue	\$ 3,978,077	\$ 3,323,014	\$ -	\$ 7,301,091	\$ -	\$ 7,301,091
Electronic health records incentive	290,674	-	-	290,674	-	290,674
Other revenues	63,029	73,774	-	136,803	-	136,803
Total operating revenues	<u>4,331,780</u>	<u>3,396,788</u>	<u>-</u>	<u>7,728,568</u>	<u>-</u>	<u>7,728,568</u>
Operating Expenses						
Nursing services	1,591,702	2,210,596	-	3,802,298	-	3,802,298
Other professional services	1,077,329	214,604	-	1,291,933	-	1,291,933
General services	308,942	502,904	-	811,846	-	811,846
Administrative services	1,222,745	927,600	-	2,150,345	-	2,150,345
Depreciation	213,431	25,458	34,253	273,142	-	273,142
Total operating expenses	<u>4,414,149</u>	<u>3,881,162</u>	<u>34,253</u>	<u>8,329,564</u>	<u>-</u>	<u>8,329,564</u>
Operating Loss	<u>(82,369)</u>	<u>(484,374)</u>	<u>(34,253)</u>	<u>(600,996)</u>	<u>-</u>	<u>(600,996)</u>
Nonoperating Revenues (Expenses)						
Investment income	365	-	-	365	-	365
Interest expense	(23,753)	(80)	-	(23,833)	-	(23,833)
Gain on disposal of equipment	49,053	-	-	49,053	-	49,053
Total nonoperating revenues	<u>25,665</u>	<u>(80)</u>	<u>-</u>	<u>25,585</u>	<u>-</u>	<u>25,585</u>
Expenses in Excess of Revenues	(56,704)	(484,454)	(34,253)	(575,411)	-	(575,411)
Net Position, Beginning of Year	<u>1,589,937</u>	<u>569,193</u>	<u>414,794</u>	<u>2,573,924</u>	<u>-</u>	<u>2,573,924</u>
Net Position, End of Year	<u>\$ 1,533,233</u>	<u>\$ 84,739</u>	<u>\$ 380,541</u>	<u>\$ 1,998,513</u>	<u>\$ -</u>	<u>\$ 1,998,513</u>



**Independent Auditor’s Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial Statements Performed in
Accordance with *Government Auditing Standards***

Board of Trustees
Coal County Healthcare Authority
Coalgate, Oklahoma

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the combined financial statements of Coal County Healthcare Authority (Authority), which comprise the combined balance sheet as of June 30, 2013, and the related combined statements of revenues, expenses, and changes in net position and cash flows for the year then ended, and the related notes to the combined financial statements, and have issued our report thereon dated February 21, 2014.

Internal Control over Financial Reporting

In planning and performing our audit of the combined financial statements, we considered Coal County Healthcare Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority’s internal control. Accordingly, we do not express an opinion on the effectiveness of the Authority’s internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified certain deficiencies in internal control that we consider to be a material weakness and significant deficiency.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity’s combined financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings and Responses to be material weaknesses: 2013-A and 2013-B.

A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in the accompanying Schedule of Findings and Responses to be a significant deficiency: 2013-C.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's combined financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Authority's Response to Findings

The Authority's response to the findings identified in our audit is described in the accompanying Schedule of Findings and Responses. The Authority's response was not subjected to the auditing procedures applied in the audit of the combined financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Authority's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Authority's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Oklahoma City, Oklahoma
February 21, 2014

Findings – Financial Statements Audit – Internal Controls over Financial Reporting

2013-A Segregation of Duties

Condition and criteria: Certain employees perform duties that are incompatible. One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible.

Effect: Limited segregation of duties could result in misstatements that may not be prevented or detected on a timely basis in the normal course of operations.

Cause: A limited number of office personnel prevent a proper segregation of accounting functions necessary to assure optimal internal control. This is not an unusual condition in organizations of your size.

Auditor's Recommendation: We realize that with a limited number of office employees, segregation of duties is difficult. We also recognize that in some instances it may not be cost effective to employ additional personnel for the purpose of segregating duties. However, the Authority should continually review its internal control procedures, other compensating controls and monitoring procedures to obtain the maximum internal control possible under the circumstances. Management involvement through the review of reconciliation procedures can be an effective control to ensure these procedures are being accurately completed on a timely basis. Furthermore, the Authority should periodically evaluate its procedures to identify potential areas where the benefits of further segregation of duties or addition of other compensating controls and monitoring procedures exceed the related costs.

Management Response: Management agrees with the finding and has reviewed the operating procedures of the Authority. Due to the limited number of office employees, management will continue to monitor the Authority's operations and procedures. Furthermore, we will continually review the assignment of duties to obtain the maximum internal control possible under the circumstances.

2013-B Preparation of Combined Financial Statements

Condition and criteria: The Authority does not have the internal control system over financial reporting designed to provide for the preparation of the combined financial statements, including the accompanying footnotes as required by generally accepted accounting standards, on a periodic or annual basis. This circumstance is not unusual in an organization of your size. It is the responsibility of management and those charged with governance to make the decisions whether to accept the degree of risk associated with this condition because of the cost or other considerations.

Effect: We noted a material weakness in the Authority's internal controls over financial reporting and procedures related to the preparation of the combined financial statements.

Cause: The board had considered the cost benefit of improving the internal control over financial reporting and has decided to accept the risk associated with this condition.

Auditor's Recommendation: It is recommended the Authority implement a system that allows the preparation of combined financial statements in accordance with GAAP.

Management Response: Given the size of the Authority, we do not think it would be cost-effective to fully cure this deficiency at this time. In addition, given the complex and constantly changing nature of financial reporting requirements, we believe that better results can be achieved by continuing to rely on the expertise of our outside auditors regarding these matters.

2013-C Pharmacy Revenue

Condition and criteria: During the year, the Authority was billing patients for the incorrect amounts. This was due to the Authority entering the incorrect amounts into the accounting system.

Effect: We noted that the pharmacy revenue was overstated by a significant amount.

Cause: The Authority was coding the dosage amount instead of the quantity of the drug into the accounting system.

Auditor's Recommendation: It is recommended that the Authority review the patient medical record on a timely basis before the patient or third-party is billed.

Management Response: This Hospital has implemented a procedure to review the patient bills before they are billed. Subsequent to year end, the Hospital has improved the process to review the bills in a more timely fashion.